



Sirca Paints India Limited

Q4FY22 Earnings Conference Call

Monday, 30th May, 2022

Management Participants

Mr. Sanjay Agarwal – Chairman and Managing Director

Mr. Apoorv Agarwal – Joint Managing Director

Ms. Shallu Arora – Chief Financial Officer

Mr. Suraj Singh – Company Secretary and Compliance Officer



Analyst

Mr. Sayam Pokharna – TIL Advisors Private Limited

Moderator: Ladies and gentlemen good day and welcome to Sirca Paints India Limited Q4 FY22 earnings conference call hosted by TIL Advisors. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sayam Pokharna from TIL Advisors. Thank you and over to you sir.

Sayam Pokharna: Thank you Peter. Welcome everyone and thanks for joining the Q4 and FY22 earnings call of Sirca Paints India Limited. The investor updates have already been e-mailed to you and are also available on the website of the stock exchange and sircapaints.com. To take us through today's results and management today we have with us Mr. Sanjay Agarwal – Chairman and Managing Director, Mr. Apoorv Agarwal – Joint Managing Director, Mrs. Shallu Arora – Chief Financial Officer, Mr. Suraj Singh – Company and Compliance Officer. We will be starting with a brief overview of Q4 and FY22 performance followed by a Q&A. I want to remind you all that everything said on this call that represents any outlook for the future that can be construed as a forward-looking statement must be viewed in conjunction with the risks and uncertainties that we face. Some of these risks and uncertainties have been mentioned in our prospectus and follow-up annual reports. I would now like to handover the call to Mr. Apoorv Agarwal. Over to you sir.

Apoorv Agarwal: Thank you Sayam. Good afternoon, everyone, and thanks for joining our earning call for Q4 and FY22. It is my absolute pleasure to be taking all of you this afternoon I would like to begin by expressing my gratitude to my team.

Moderator: Ladies and gentlemen unfortunately we've lost the connection for Mr. Apoorv Agarwal. Please stay connected. Ladies and gentlemen, we've got the line for Mr. Apoorv Agarwal connected again. Sir you can proceed.

Apoorv Agarwal: Thank you. I would like to begin by expressing my gratitude to my team, the investors and everyone associated with Sirca Paints India Limited for your continued faith and trust in us. I would like to quickly take you all through the performance of this quarter and the full year post which we can open the floor for questions.

I am pleased to present that we have reported another robust quarter despite some disturbance faced in the month of January 2022 especially in the Northern part of India due to partial lockdowns in the NCR region. This coupled with a temporary ban on spray paintings in NCR during the winter season that had an impact on our December 2021 sales as well which affected our performance to an extending Q3 FY22. Our Q4 sales at 54.10 crores grew by 13.7% year-on-year and were flattish quarter-on-quarter with a marginal increase of 1.7%. EBITDA

margins for Q4 witnessed some compression which was majorly due to some additional year end dealer compensations coupled with marginally higher employment benefit expenses due to some new hiring's that we have done at new branches and studios and a slight reduction in the gross margins due to turbulence in the raw material market. I would like to mention that despite the inflationary environment, we are present in the.... currently your company has been able to preserve its profitability. We would continue to do our best to keep our margins intact. If we look at the annual top line for FY22, our business has clearly changed its trajectory. We have reported our highest ever annual sales at 200 crores. This is a significant growth of about 40% over the previous year's 143.18 crores. The company has also come back strong on the profitability front in FY22 with the EBITDA margins of 18.9% during FY22 compared to 15.2% in the previous year. PAT for the year also stood at 27.73 crores, up by 67% year-on-year. Now I would like to share some operational highlights and developments.

Firstly, we are pleased to announce that the company is adding a resin manufacturing line at its existing Sonipat facility in the same premises where our Unico products are manufactured. As you all know resins are the key starting raw material for wood coating industry. It is the single biggest sector affecting the quality at our end product. Of late we are noticing some inconsistencies in the quality of resins available locally thus as a strategic move the company decided to manufacture all these key resins in-house. These resins will be used to manufacture our Unico range of products, all the product kitty from NC melamine and the mass market of Indian PU. We also expect this project to contribute to better margins. The extent of the benefit will be known post commercialization of the project. Secondly, we have postponed our south Indian wood coatings facility by a couple of quarters. First, we would like to have a superior distribution and some aggressive marketing activities in our target market post which we will go ahead with the plan as communicated earlier. Till that time our Sonipat facility is going to cater to these markets.

I am also pleased to report that in our efforts of optimizing debtor days, channel financing has been successfully introduced with couple of big distributors and dealers onboard initially, the company plans to add about 50 dealers and all its distributors in the coming few quarters. We have received good response from the dealers and the distributors we have on board so far.

On the product portfolio side Unico has fared well during the last quarter, we expect Unico to increase its revenue contribution in the coming quarters and the financial years. We are also receiving an exceptional response on our wall-paint category which has performed well in the year gone by, including our premium category textures, finishes from San Marco. For Durante & Vivan our plan is to launch these products in a couple of upcoming trade shows and exhibition. As communicated earlier our first priority move is the flagship product categories that is hot melt in our existing OEM channel. With this I would like to open the floor for that question. Thank you everyone.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from line of Mohit Kanjwani an Investor.

Mohit Kanjwani: My first question was how we are planning for the future competition given the fact that JSW has entered the space and in 1-2 years Grasim have plans like they have set aside a target of 10,000 crores of entering the paint business. And my second question was like when can we see significant contribution from like our adhesive glue business and the Marco paint business?

Apoorv Agarwal: To answer your first question, JSW and Grasim as of now is not a big question of competition for us reason being that their target product is the decorative which is the wall paint. For now, Sirca Paints India Limited is focused mainly on the PU products, the wood coating products and our more than 95% of our turnover comes from the wood products. As of now JSW and Grasim have not announced their key entry in the wood care products or the polyurethane coating. So, for now I mean we are seeing it more as an opportunity because the market is going to open up in the decorative segment and going forward it is not a serious area of concern for us or a threat, reason being that we don't see any announcement yet of their entry in the wood coating segment. Answering your second question, for Durante & Vivan we are launching our glue in the trade fair called Indiawood which is happening in the Bangalore from 2nd June to 6th June. So officially the launch of Durante & Vivan is happening there where we are looking for the channel partners and the distributors and the product will be launched in the market by end of July. As mentioned during my speech the first product that we are launching are the hot-melt and urea-formaldehyde glues used majorly in the furniture industry. And for San Marco the sales have already started. We are working with almost four distributors and six dealers currently for the Marco sales and the product has shown a decent momentum starting the third quarter of last financial year. We are expecting very good numbers in this year from San Marco marketing products.

Mohit Kanjwani: Also, is there any plans for Sirca Italy to increase the shareholding in the company as talked earlier?

Apoorv Agarwal: Yes absolutely. Their visit happened in month of May with the primary objective of increasing their shareholding here. Hopefully we should hear from news in the coming quarter. The major reason for current delay was the situation with the Russia because for Sirca Italy, Russia is a very big market, and they are trying to resolve certain remittance and certain product issues with Russia which is their main area of concern as of now. Hopefully once they are able to resolve all their pendency with Russia the focus towards increasing their shareholding in India should happen.

Moderator: Our next question is from the line of Akshay Mahtur, an Investor.

Akshay Mathur: So, my first question is, if you can help us better understand as in how tricky it is to manufacture resin as against what we've been doing like manufacturing wood coatings. Secondly if you can

also help us better understand as to why we are not directly importing resins from....we continue importing resins from Italy as I understand that Sirca Italy already doing it.

Apoorv Agarwal:

Yes. See manufacturing resin for what we have understand from last three months when we were discussing this project with our chemist and Sirca Italy, is much more easier than manufacturing the finished product. The reason of manufacturing the resins here is to mainly to come over the challenges of supply chain which we have experienced for last 3-4 months. Also, it brings down the cost significantly and increases the quality I mean by almost 20%-30%. We are going to manufacture the resins for our Unico and economical range of products. But when it comes to the Italian PU which we look forward to manufacture in India, for those resins are going to come from Italy only. Here we are going to manufacture the resins which we will use which we currently use to manufacture MC, melamine, and the economical range of PU. These three products together uses almost seven different kinds of resins which we are buying from different suppliers where we were facing a lot of disruption in last 3 to 4 months because of the turbulence in the raw material market with the quality also, with the supply also and the price. With this project we estimated that we will be able to reduce the cost on the resins by approximately 15% and the quality would go up by 20%. We are going to manufacture for the current range of economical products. For the Italian products the resins will come directly from Italy.

Akshay Mathur:

This is helpful. My second question is on the margins front. Now I do see a consisting decline in terms of our EBITDA margins, a part of which is kind explainable due to high inflationary environment and the raw material cost increases. But I'm trying to get a broad sense here and will it be possible for us to—after things normalize—revert to our original margins of north or 20%-25% in terms of EBITDA margins or should we start considering 17% to 18% band as a new normal.

Apoorv Agarwal:

See around 20% to 21% is what we eye as a sustainable EBITDA margin because we expect the situation of the raw material and inflation to actually slow down a bit. Once the raw material situation actually settles down in past, we have never seen the price decrease calls coming from the company. So, we will be able to actually I mean use this opportunity to increase our EBITDA by 3% to 4%. The sustainable EBITDA that we expect going forward considering the external factors is about 20% to 21%. Also, the cost of employment, the staff cost which has increased in last couple of quarters going forward I think with the current staff costs we are eyeing to increase our revenue significantly. From there also with the right proportion we will be able to increase on our margins going forward.

Akshay Mathur:

One last question from my end. Again, this is a bit more hypothetical but if this kind of inflationary environment were to continue for probably the next couple of years, as an internal strategy what would we be aiming at like would we be looking to keep our market share or probably we would time more on the profitability. So that is one. Secondly also if you could highlight that in the last maybe a couple of years, we forayed into various categories. So next

5 years how would you probably evolve as a company? These are the last questions from my end.

Apoorv Agarwal: So, going forward obviously considering the environment and the inflation situation right now, the company is very strongly focusing on the high value product because we have always seen that, in that segment we never see a kind of recession even after the inflation things happening. The company is strongly focusing to nurture, to look forward to the sales through our high-value product, the luxury range of product which is the Italian PU and the HQ series range. Besides this to ensure our growth this year we have done a lot of horizontal and vertical expansion of our product range which will enable us to reach to the desired growth this year despite of the fact that the inflation remains or even increasing in this financial year.

Moderator: Our next question is from the line of Kavish Jain an Investor.

Kavish Jain: My question is on the postponement of south Indian facility. Are we not receiving a good response from this market since they have already been in the market? Why is it that we are not been able to create a strong hold there?

Apoorv Agarwal: So, with our new experienced team coming on board, Mr. Narender Mendiratta and Opendar Koul, who came from the existing PU market and wall market. The focus for this couple of quarters were on the north and the west market. The reason being that here we found our entry very easy because we already have a very strong footprint and the incremental sales that we are expecting this year could have come much more easily and much with the less expensive this year. So, the focus is after the board meeting shifted towards the North and West for this year because the scope of growth from these existing space where we already have a decent infrastructure was remarkable, there was a big opportunity. So, that is why the project of the South was delayed by two-couple of quarters. The reason being that we are seeing an enormous scope of growth in the North and the West where we are already performing very well and if we are able to focus and put our energies and money in these states, the results will be much-much more faster and with these results coming in by the end of say this year we will be able to hit the South market as well. In the South, yes, I mean the sales are showing the positive fronts specially the Kerala market for which we wanted to place our new facility in Coimbatore to manufacture the economical range of products. But beside this, keeping in mind the inflation and the external factors for this year, our focus again is going towards the luxury range of products which still contributes to about 88% of our total revenue where we are expecting a huge growth from the West and the North Indian market this year.

Kavish Jain: Secondly, can you roughly give us a split of how much is the non-Italian PU sales this year, out of the total Rs. 200 crores top line?

Apoorv Agarwal: Can you repeat, can you repeat how much is the?

Kavish Jain: Non-Italian PU sale?

Apoorv Agarwal: Non-Italian PU sale is the sales from the Unico range of product and the wall paint and which is approximately about almost 14% of our total revenue.

Kavish Jain: Can you give us the bifurcation as to how much is the San Marco and wall paints and other categories?

Apoorv Agarwal: Total sale from wall and all, they are actually on the lower side. I mean it was approximately about Rs. 15 odd crores and the rest was coming from the Unico PU.

Kavish Jain: Just a follow-up question on this. How do you see this non-Italian PU business shaping up in coming years and like what is the top line target you have in mind for coming years?

Apoorv Agarwal: Sorry, can you repeat?

Kavish Jain: How do you see the non-Italian PU business shaping up in the coming years and what is your top line target for the same?

Apoorv Agarwal: So yes, non-Italian, so just a small correction that the non-Italian product contribution this year was approximately about 20% and going forward with the facility of Sonipat, we are going to actually focus on manufacturing the PU range rather than the NC and Melamine where the average realization is more and the product is meant for the quality product. So, we are expecting that this year the contribution of the economical range of products specially the Unico and wall paint would increase to about 30%-35% of the total revenue.

Kavish Jain: Lastly, I just wanted to understand the competitive scenario as in like recently **(Inaudible)** **(23.51)** into the industry **(Inaudible)** **(23.53)** an acquisition. What is the kind of competitive intensity or change in the wood coating industry in last 1 year and which player do you think is going to be our key competition on our premium wood coating side?

Apoorv Agarwal: The actual acquisition that happened also was of the wall paint company. So, majorly all the action that we have seen in last couple of years with the announcements of JSW, Birla or ASTRAL entering into or buying out the wall paint company is more towards the decorative side and we as a company as I told you is still focused or currently into the revenue segment coming from the wood coating products. We have not currently seen any competition or any threat from these big giants entering into the decorative segment because our presence is more towards the wood.

Kavish Jain: Are there any price hike in the immediate coming month or two and if yes what is going to quantum of the hike?

Apoorv Agarwal: There are hikes which are scheduled for the month of June and July between 4% to 6% approximately.

Moderator: Our next question is from the line of Vijay Chauhan with Right Horizons.

Vijay Chauhan: I just would like to understand like we are seeing huge opportunity in North and West side so which kind of like top line growth we can see in next 3 to 4 years also like we are doing lots of initiative on the resin side as well. What is the kind of top line we are expecting from a longer-term perspective maybe 3-4-5 years down the line?

Apoorv Agarwal: We now going forward I mean we are expecting about 50% to 60% of our revenue growth every year. This would come from our existing range of product and the expansion of the range of the products that we are doing and the primarily the main, the majority of the share of the increase in the revenue will be contributed by the Indian made and the Italian PU. The Indian made PU for now which we call as the Unico PU, we expect that by maximum 1.5 to 2 years, the plant will be operating at its max capacity which will contribute to almost about Rs. 240 to 250 crores of additional revenue coming from the polyurethane products. So yes, to be conservative yes, we are expecting 50% to 60% of our top line growth for next 3 to 4 years.

Vijay Chauhan: Roughly we will be around Rs. 400 odd crores company in next 3 to 4 years. Is it safe to assume?

Apoorv Agarwal: Sorry, how much?

Vijay Chauhan: Rs. 400 crores top line in next 3 to 5 years?

Apoorv Agarwal: 3 to 5 years much more than that.

Vijay Chauhan: Secondly on the dealer addition side so what is the kind of strategy that we are adopting to increase our dealer network? And is there any like program has been done on specifically on this side? So, if you can just throw more light on this part?

Apoorv Agarwal: Yes, so as company, we are very strongly focusing on increasing our distribution network which is the which will be the key factor of our growth, revenue growth this year. So, the company has implemented 1st to 5th day of every month as the NDO days where the all the teams are focusing on only New Dealer Opening which we call as the NDO days and we are expecting to add almost about 150 to 200 dealers every month on PAN-India basis where we are targeting our all the range of products from the Unico to the Italian to the San Marco and the wall. So, with certain range of products we are adding dealers every month between 1st to 5th and like this we expect that by the end of the year, we will be adding not more, I mean not less than 2,000 to 3,000 new dealers this year.

Moderator: Our next question is from the line of Rajesh Gupta with SBI Capital.

Rajesh Gupta: I missed out your opening remark. Just wanted to understand the growth driver for your industry. I heard that you are expecting 50% to 60% kind of growth per annum on the sale side but just wanted to understand the margin profile going forward, the kinds of products which maybe you are looking and also the demand environment in totality?

Apoorv Agarwal: You rightly heard us that we are expecting to grow at least by 50% to 60% every year on the top line with the margins getting better by every year. We are expecting that the expenses that we are doing towards the infra side and on the manpower will actually balance our expenses going forward compared to the revenue and the margins would get better in the coming years when the expenses are not growing in the same ratio as the turnover is. So yes, going forward we expect that the margins in the coming year should get better and we would be able to sustain our EBITDA of about 20% to 21% going forward.

Rajesh Gupta: The demand environment, if you can throw some light on that because so growth is there while your base is very small but the growth itself very-very robust. So just wanted to understand the kind of demand climate that you are seeing in the wood coating and the decorative paint where you are trying to enter into?

Apoorv Agarwal: So, the demand side we have seen I mean there was a strong pent-up demand in the Q2 and Q3 of the last financial year. In fact the Q4 also performed very well, in fact if we talk about current and despite of this tough environment and inflation we are not seeing any downside towards the demand at the luxury product side where our major revenue contribution is coming from but going forward also as you see a lot of big players like JSW and Birla and ASTRAL are entering into the decorative segment and the market is getting more organized and the demands of, demand towards the paint, in the paint industry itself is increasing quite aggressively. We see a lot of scope for next 3 to 5 years. The demand even after strong external factors should increase. I mean there is a lot to do in next 3 to 5 years when it comes to the construction and the building segment.

Rajesh Gupta: If you can give some details about the CAPEX plan, the revenue addition from those Durante & Vivan that you're looking. I heard that in next 1.5 years you were saying that the new plant will get commissioned and that will provide Rs. 240 to 250 crores of revenue going forward. So, if you can just give us what is the kind of CAPEX plan that actually, if it could happen from your side and the how you look to finance those CAPEX?

Apoorv Agarwal: What we mentioned that Rs. 240 to 250 odd crores revenue was from the existing plant that we should reach there, we should be able to utilize the maximum capacity of our existing plant to reach the Rs. 250 to 240 odd crores turnover by this year- 1.5 years. So, this was for the existing CAPEX that we have done. Going forward we are going to do a next small CAPEX of about Rs. 5 to 6 crores for our South India operations which should happen by end of this year and right now we have done a small CAPEX to develop our resin plant which is being developed

in the existing Nathupur facility which will allow us to manufacture all our key resins in-house to ensure the better quality and the better prices and avoid the disruptions in the supply chain.

Rajesh Gupta:

You were saying that with existing capacity you will be having the revenue of Rs. 250 to 260 crores for the current year but how you will grow? I mean just wanted to understand this Rs. 5 to 6 crores CAPEX which you are going to do, then how you will grow 50% to 60% per annum going forward?

Apoorv Agarwal:

No. The majority of the growth also is coming from the trading business where we are importing the products from Italy which is a luxury PU side. Still our majority is, the majority share of the business comes from the trading business where we are importing the products from Italy and distributing it in India which we expect to grow quite aggressively also in the coming years. Beside this we are expecting our revenue to grow from the Unico range of products which is the Indian made PU which is made in India from the technology of Sirca Italy wherein we expect that by 1 year, 1.5 years we would reach to the maximum utilization of our current facility which will give us a revenue of not less than Rs. 250 to 260 crores with a mix of products but can reach to up to about Rs. 300 crores going forward if we manufacture more of PU. Beside this we are also expecting our revenue to grow at the wall paint side, at the texture business from San Marco and the adhesive which is a new line which is, which will be launched in India in the next week and the product will be out by the end of July.

Moderator:

Our next question is from the line of Vijay Chauhan with Right Horizons.

Vijay Chauhan:

I just wanted to understand more on the resin initiative that we have taken for in-house manufacturing. So, what kind of margin improvement or something that we are looking at by doing in-house manufacturing?

Apoorv Agarwal:

We are expecting at least on the resin side which contributes to almost 20% to 30% of the product; we expect that the prices of the resins should go down about by about 10% to 15% and the quality would also be much-much on the better side when we manufacture it in-house.

Vijay Chauhan:

Is there any number that translates into the overall margins like on the operating margin side means 1% or 2% kind, something like that?

Apoorv Agarwal:

Yes, so approximately like we will be reducing our COGS by Rs. 4 to 5 a liter and with the average pricing I think it will in the percentage should be about 4% to 5%.

Vijay Chauhan:

Lastly on the like there was some impact due to the COVID disruptions in December and January month, opening this year. So, what kind of run rate or what was the contribution coming from February and March, if you can throw some light in terms of sales contribution on the current revenue for the current last quarter.

Apoorv Agarwal: Can you repeat?

Vijay Chauhan: Monthly run rate is February and March because we have lost a lot of, I think 20-25 days of sales in January as well?

Apoorv Agarwal: The average run rate was about 20-21. The March closer, March was a bit better. The average was you can say was about 22.5.

Vijay Chauhan: And the traction is continuing in this inflationary time as well like mostly the April-May like where we have seen spikes in the inflation number?

Apoorv Agarwal: Yes.

Moderator: As there are no further questions, I would now like to hand the conference back to Mr. Apoorv Agarwal for closing remarks.

Apoorv Agarwal: I would again like to thank everyone of you for joining this conference and just to close I would like to update that we see this year again as a year of opportunities. We have a lot of experienced team coming on board which is giving us a lot of excitement this year to grow quite aggressively, to grow as per our plans and we hope that this year will be much more exciting because we can remain, we can avoid the COVID lockdowns which we have, which were facing for last 2 years. This year the team, the whole Sirca team is quite excited to reach to its numbers and I mean reach to the final target. So, once again, I would like to thank each and every one of you for having the trust in Sirca Paints and its management and we assure that we would actually reach your trust, your continued trust in the future. Thank you.

Moderator: Thank you. On behalf of TIL Advisors Limited I conclude this conference. Thank you for joining us today and you may now disconnect your lines.